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Financial Report
OF
GEO. A. HORMEL & COMPANY
AUSTIN, MINNESOTA
for the
Fiscal Year Ended October 25, 1947

OFFICERS

Jay C. Hormel - - - - - Chairman of the Board
H. H. Corey - - - - - President
R. F. Gray - - - - - Executive Vice President
R. H. Daigneau - - - - - Vice President
Park Dougherty - - - - - Vice President
Clarence Nockleby - - - - - Vice President
J. L. Olson - - - - - Vice President
T. H. Hocker - - - - - Vice President
R. D. Gower - - - - - Vice President and Controller
Geo. W. Ryan - - - - - Secretary
M. F. Dugan - - - - - Treasurer

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DIRECTORS

S. D. Catherwood
 H. H. Corey
 R. H. Daigneau
 Park Dougherty
 M. F. Dugan
 R. D. Gower
R. F. Gray
 John P. Higgins
 T. H. Hocker
 Jay C. Hormel
 J. L. Olson

Austin, Minnesota
November 28, 1947

To the Stockholders of
Geo. A. Hormel & Company:

The earnings statement and balance sheet of your Company for the year ended October 25, 1947, is submitted herewith.

Capital stock and surplus amounts to \$19,001,421. The Company has no funded debt. It has no borrowed money or other indebtedness at the year end beyond current and customary bills. Its net working capital amounts to \$11,437,506.

As has been its custom in the past, the Company continues to price its inventory at the lower of cost or market. At the same time, our policy continues to be to keep inventories at a minimum, in spite of which we have a higher than usual inventory money valuation. It is expected that there will be a time when inventory values will decline in such a way to reduce the profit trend in our business and in the industry. Being unable to forecast the time the trend will change, we will continue the minimum inventory policy against that eventuality.

In tonnage, total sales of products for the year amounted to 644,764,448 pounds, which is an increase of 23 percent over last year and 19 percent over 1945, and is, in fact, only two million pounds less than the wartime peak of 1944. This rapid recovery in the physical volume of business done is explained in small part by additional facilities which have come into operation during the year. In greater degree, the volume was made possible by the cooperative attitude existing between managerial, sales, and production employees, and by the efficient use of working time by production employees. For the most part, the volume is explained by the fact that we have been able to recover our full share of the meat business which was diverted into other channels, including black markets, during the period of government controls.

In dollars, net sales amounted to \$226,794,581, which is 67.6 percent more than the value of similar tonnage volume in 1944, and represents the extent to which the price of meat has increased since that war year. However, net profit has not increased proportionately.

This year the net profit was less than $1\frac{1}{2}c$ (\$0.0142) per dollar of sales, and was only 41c per hundredweight of the livestock purchased, which is clearly not a high enough profit rate to offset the increased working capital required, the increased risk of inventory losses, and the increased risks involved in our wage commitments.

In general, the increased cost and hazard of doing business, together with the research and development necessary to keep the business sound and servicable for stockholder, livestock producer, customer, and employee alike, requires a greater profit per dollar of sales and per hundredweight of livestock, so long as these higher price levels prevail. In an effort to secure this extra needed profit, the Company is undertaking to moderately expand its volume of business and is endeavoring to do the kinds of business which yield us the greatest profit opportunity.

In 1945 we reported the purchase of a beef slaughtering plant in Dallas, Texas. During 1947 the facilities of this plant have been expanded to give us a somewhat larger capacity and to provide for certain processing operations there.

A gelatin plant has been added to the facilities at Austin. It has many new and novel features and is probably one of the most efficient plants for the manufacture of high-grade gelatin. We believe it will become a successful and profitable addition to our business.

Among other new products initiated during the year are Hormel Deviled Ham, Deviled Tongue, and Liver Pate'; Hormel Corned Beef Hash, and Mary Kitchen Roast Beef Hash. The manufacture of Whole Chicken, Quarter Ham, and the famous Hormel Onion Soup has been resumed.

In June, 1947, the Company purchased the plant of the Fremont Packing Co. at Fremont, Nebraska. This purchase, along with the improvement at Dallas, was undertaken because we were finding that the demand for our product could not be filled by the production of the Austin plant. Hence, in order to protect the interests of our stockholders, employees, and customers, it was necessary to develop in new fields.

At the moment, we are engaged in a building program to expand the facilities at Fremont. In this new construction the Company is finding its first opportunity to apply the revolutionary principles of the One Story Packing House, the "pilot plant" for which was constructed in Austin in 1941 and was discussed in our letter to stockholders for that year. We expect that the expenditures which have been made, or will be made, in these plants will in turn enable the Company to better handle business which has already developed, permit us to give better service to customers who are already depending on us, and, hence, assure the Company of a better earning opportunity. Based on our pre-war earning record, now fortified by the increased profitable business expected from these increased facilities, the Board of Directors has authorized an increase to 62½¢ per share in this regular quarterly dividend on common stock.

The total number of employees on the Company payroll at the end of the year was 6387. Of these 4588 are employed at Austin. The actual number added to the Austin plant payroll (exclusive of office) during the year was 393. 158 people left the plant payroll during the year, which is a significantly small number when it is considered that 5 retired, 13 died, 43 left to go into business for themselves.

Completion of improved employee facilities has been accomplished with the occupation of our new cafeteria and medical department. The cafeteria is modern in every way and provides an excellent place for those people who eat their meals at the plant. The Company has long needed this facility, as well as the medical department. As for this latter new activity, we feel that we have made available the latest in all types of medical equipment, along with adequate space and personnel to operate such equipment. The new quarters include a large reception-record room, large dispensary, examining rooms, private offices, x-ray, physiotherapy, medical laboratory, minor surgery, sterilizing room, and two recovery rooms of two beds each. It is now our belief that none of our people need suffer for the lack of medical advice or care. A vastly larger number of persons can be seen and, because of the increased facilities, better and more complete care can be given.

The year was saddened by the passing of Mr. C. D. Bigelow, Secretary of the Company, and Mr. Ralph P. Crane, Director. The Board of Directors wishes to pay its tribute to the contribution each of these men has made to the growth and development of the Company.

H. H. COREY,
President

BALANCE

Geo. A. Hormel & Company

October 2

ASSETS

CURRENT ASSETS			\$21,720,403
Cash in banks and on hand		\$ 4,822,893	
United States Government securities—at cost		440,000	
Trade accounts receivable, less reserve of \$100,000		6,073,355	
Inventories:			
Products, livestock, packages and materials— at lower of cost or market (cost of production is based on market at date of production)		10,384,155	
INVESTMENTS AND OTHER ASSETS			91,132
Properties not used in operations—at cost less reserves for depreciation of \$28,884		\$ 26,405	
Sundry securities, notes and accounts, less reserve of \$33,650		64,727	
PROPERTY, PLANT AND EQUIPMENT			7,097,423
	COST	RESERVES	NET BALANCE
Land	\$ 193,203		\$ 193,203
Buildings	6,153,580	\$2,204,990	3,948,590
Machinery and equipment	5,417,463	3,318,427	2,099,036
Leasehold improvements	503,176	248,034	255,142
Construction in process	225,879		225,879
	<u>\$12,493,301</u>	<u>\$5,771,451</u>	<u>\$ 6,721,850</u>
Movable equipment—inventory basis			375,573
DEFERRED CHARGES			475,360
			<u>\$29,384,318</u>

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any — Austin, Minnesota

25, 1947

LIABILITIES

CURRENT LIABILITIES		\$10,282,897
Accounts payable and accrued expenses —	\$ 2,492,013	
Salaries, wages and profit sharing payments	4,878,116	
Income taxes withheld from employees and pay roll taxes —————	415,462	
Dividends payable November 15th————	312,306	
Federal taxes on income of the year ended October 25, 1947, and prior years—esti- mated, less amounts recoverable from prior years \$180,000—————	2,185,000	
RESERVE—for contingencies		100,000
CAPITAL STOCK AND SURPLUS		19,001,421
Preferred stock, cumulative, par value \$100:		
Authorized—48,935 shares		
Issued—Series A, 6%		
(callable at \$105) ————14,554 shares	\$ 1,455,400	
In treasury—————100 shares	10,000	
Outstanding —————14,454 shares	\$ 1,445,400	
Common stock, no par value:		
Authorized—500,000 shares		
Issued —————493,944 shares	\$ 6,116,586	
In treasury —————28,944 shares	358,414	
Outstanding —————465,000 shares	\$ 5,758,172	
Surplus (including earned surplus of predecessor corporation) —————	11,797,849	
		<u>\$29,384,318</u>

SUMMARY OF PROFIT AND LOSS STATEMENT

Geo. A. Hormel & Company

Fiscal year ended October 25, 1947

SALES (less returns and allowances) -----	\$231,979,784	
Less freight and express -----	5,185,203	
NET SALES -----		\$226,794,581
COSTS, EXPENSES AND TAXES -----		223,565,993
(Itemized below)		

MATERIAL COSTS AND EXPENSES \$197,916,839

Cost of products sold, selling, administrative and general ex- penses, exclusive of items shown separately -----	\$197,146,714
Provision for depreciation and amortization -----	680,440
Sundry charges less sundry in- come and credits -----	89,685

TOTAL WAGE COSTS 22,831,099

Wages and salaries, including joint earnings -----	\$ 21,812,988
Contribution to employees' profit sharing trust -----	676,344
Unemployment and federal old age benefit contributions	341,767

TOTAL TAXES 2,818,055

State income, property and other taxes -----	\$ 681,379
Federal taxes on income— estimated:	
Provision for the year -----	\$ 2,125,000
Additional provision for prior years -----	11,676
	<u>\$ 2,136,676</u>

NET PROFIT \$ 3,228,588

SUMMARY OF SURPLUS

Geo. A. Hormel & Company

Fiscal year ended October 25, 1947

SURPLUS—October 26, 1946*-----	\$ 9,644,110
Add net profit for the year -----	\$3,228,588
Deduct cash dividends:	
On preferred stock—\$6 per share \$ 86,724	
On common stock—\$2.125 per share 988,125 1,074,849 2,153,739	
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SURPLUS—October 25, 1947	<u>\$11,797,849</u>

*Includes a credit of \$1,323,438 resulting from reduction in tax provisions, which is segregated in the Company's accounts pending review of the Company's claims for relief under provisions of the Internal Revenue Code.

ACCOUNTANTS' REPORT

To the Board of Directors
Geo. A. Hormel & Company
Austin, Minnesota

We have examined the balance sheet of Geo. A. Hormel & Company as of October 25, 1947, and the statements of profit and loss and surplus for the fiscal year then ended, have reviewed the system of internal control and the accounting procedures of the Company and, without making a detailed audit of the transactions, have examined or tested accounting records of the Company and other supporting evidence, by methods and to the extent we deemed appropriate. Our examination was made in accordance with generally accepted auditing standards applicable in the circumstances and included all procedures which we considered necessary.

In our opinion, the accompanying balance sheet and related summaries of profit and loss and surplus present fairly the position of Geo. A. Hormel & Company at October 25, 1947, and the results of its operations for the year, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

ERNST & ERNST
Certified Public Accountants

Minneapolis, Minnesota
November 21, 1947



